Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket Nos. 96-45 and 97-160
Universal Service	)	

COMMENTS

BellSouth Corporation, on behalf of itself and its affiliated companies, ("BellSouth") hereby submits its comments in response to the Public Notice requesting comments on proposals to revise the methodology for determining universal service support.[1]

In the *Universal Service Order*, the Commission adopted a four-step methodology for determining the appropriate level of federal universal service support that non-rural carriers will receive beginning January 1, 1999.[2] The four-step methodology begins with the determination of costs based on a forward-looking economic cost model.[3] The second step requires the determination by the Commission of a nationwide revenue benchmark.[4] In the third step, the

[1] *Common Carrier Bureau Seeks Comment On Proposals To Revise The Methodology For Determining Universal Service Support*, CC Docket Nos. 96-45 and 97-160, Public Notice (DA-98-715), released April 15, 1998 ("Public Notice").

[2] *In the Matter of Federal-State Joint Board on Universal Service*, 12 FCC Rcd 8776 (1997) ("*Universal Service Order*").

[3] In the *Universal Service Order,* the Commission permitted each state commission to select a forward-looking cost model and submit it for approval to the Commission. If a state commission did not submit a model to the Commission, then that state's cost calculation would be made using a default model adopted by the Commission. The state commissions have until May 26, 1998 to submit their models. The Commission has not yet determined a default model.

[4] In the *Universal Service Order*, the Commission noted that it appears that the residential benchmark would be approximately $31 and the single-line business benchmark would be approximately $51. 12 FCC Rcd at 8924. According to the Public Notice, the Commission (Footnote Continued)

difference between the cost of universal service and the benchmark is calculated. The federal support for universal service is determined in the fourth step by taking 25 percent of the difference between universal service costs and the benchmark.

Since the Commission adopted the four-step approach, there has been a continuing debate as to whether the Commission's approach would provide a sufficient federal universal service fund as required by the Communications Act. In response to the concerns that have been expressed regarding the efficacy of the four-step approach, the Commission, in its *Report to Congress*, stated that it is in the process of reviewing "the suitability of 25/75 approach."[5] The Public Notice and the solicitation of alternative methodologies reflects a step in the review process.

In the *Report to Congress*, the Commission clarified its intention to make explicit the implicit support currently embedded in interstate access charges.[6] Many of the concerns regarding the current four-step methodology stem from an expectation that the methodology will result in a federal support mechanism that is insufficient to cover all of the existing support, implicit and explicit, that is received today. BellSouth shares these concerns. The use of the nationwide average revenue benchmark coupled with the 25 percent allocation factor guarantees that, for some states, the federal fund will be insufficient to maintain the level of support currently being received by the state.

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intends to formally adopt the benchmarks before it implements a high cost mechanism based on forward-looking economic costs.

5 *In the Matter of Federal-State Joint Board on Universal Service, Report to Congress*, CC Docket No. 96-45 (FCC 98-67), released April 10,1998 ("*Report to Congress*").

6 *Report to Congress* at ¶ 226.

BellSouth submits with these comments a revised methodology for sizing the federal universal service fund.[7] BellSouth's methodology, like the four-step methodology, begins with determining the cost of universal service based on an economic cost model. In the second step, the current state specific implicit support that is included in interstate access charges is determined. The loop-related access charges whose cost recovery have been shifted from the end user to the interexchange carrier—the carrier common line charges and the presubscribed interexchange carrier charges—contain the implicit support for universal service.[8] In step three, these amounts would be deducted from the total universal service costs derived from the model with the residual being the universal service support responsibility of the states. The size of the federal high cost fund would be the implicit support identified in step two and the amounts associated with the existing explicit mechanisms.[9]

Thus, BellSouth's methodology would establish the minimum size federal fund necessary to assure that current implicit and explicit levels of federal support for universal service are maintained. At the same time, nothing in BellSouth's methodology would preclude the

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7 The methodology is described in Attachment 1.

8 The Commission has stated its intention to initiate that proceeding to create a mechanism that would address historical legacy costs. Until such time the Commission concludes such a proceeding and provides an alternative recovery mechanism, it is appropriate that these costs be recovered through the federal universal service fund to the extent that they are reflected in current carrier common line charges and presubscribed interexchange carrier charges. If the Commission establishes an alternative recovery mechanism for legacy costs, then the federal universal service fund could be reduced.

9 These mechanisms are the interstate high cost loop fund, dial equipment weighting, Long-Term Support, and Lifeline and Link-up programs.

Commission from identifying circumstances under which the Commission would provide states with additional federal support.[10]

BellSouth's methodology provides an efficient means to achieve the Commission's objective that the states receive from the federal fund at least the same level of support that they are receiving from current implicit and explicit mechanisms. It will enable the Commission to assure itself that it has satisfied the statutory requirement that the fund be sufficient to achieve the purposes of Section 254 of the Act.[11]

Respectfully submitted,

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10 *See e.g.*, *Report to Congress* at ¶ 227.

11 47 U.S.C. § 254.

Overview of BellSouth's Federal High Cost Universal Service Funding Proposal

Overview: BellSouth's proposal is focused on replacing the implicit support that exists today in Interstate access rates with an explicit and sustainable funding mechanism. The states would still be responsible for setting up explicit and sustainable state funds to deal with any implicit support that remains after the federal fund is implemented.

Specifics of BellSouth's Plan:

1. Identify the economic cost of providing universal service for areas no larger than wire centers through use of a reasonable cost proxy model. This allows identification of the full amount of implicit subsidy currently built into rates.

2. Identify the amount of implicit and explicit support that is currently being funded within the interstate jurisdiction. These amounts would include any existing support mechanisms (the current High Cost Fund, DEM weighting, and Long-Term Support), and implicit support built into switched access rates (which is calculated by state and by company based on the sum of Carrier Common Line revenues and Presubscribed Interexchange Carrier Charges (PICCs)).

3. Calculate all federal support on a per line basis by wire center. This amount can be calculated based on the results of the cost proxy model. For example, if the total support in a given state for a given company is $50 million (based on economic cost), and the federal amount of support is $22 million (calculated pursuant to step 2), then the per line results from the cost proxy model can be multiplied by 44% ($22M/$50M) to arrive at the federal support per line in a given wire center. The per line level of support is portable to any eligible carrier.

4. Carriers should first use net revenues from the new fund to offset support that will be lost from the existing mechanisms. Then, any additional net support should be applied to CCL, multi-line business PICCs and finally residential and single-line business PICCs. The bottom line is that the total of the revenue reductions should be equal to the net amount of funding received from the federal high cost fund.

Other Points:

1. The states would be responsible for making explicit any implicit support that remains after the federal fund is implemented. The states would thus need to compare the state's view of the economic cost of providing the supported services to the maximum price that can be charged for the supported services, and provide explicit funding or rate rebalancing to deal with any implicit support not taken care of by the federal fund.

2. The Federal fund should be supported by all providers based on an assessment against both intrastate and interstate revenues received from endusers. Both interstate and intrastate retail revenues should be assessed because it will become increasingly difficult to tell these revenues apart.

3. The Federal fund should be implemented on 1/1/99 as planned. Nothing in this proposal would make that date unattainable.

4. For rural LECs, support from the new fund should be equal to the amount of support previously provided by the NECA Universal Service Fund, DEM Weighting and LTS.

5. Since local exchange carriers will also have to pay into the fund, some kind of PICC charge will likely remain even after implementation of the new universal service fund to allow LECs an opportunity to recover their assessment.

CERTIFICATE OF SERVICE

I do hereby certify that I have this 27th day of April 1998 served the following parties to this action with a copy of the foregoing COMMENTS by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties listed on the attached service list.

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Juanita H. Lee

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